

## Joseph A. Schumpeter Revisited: Projections for the Twenty-First Century

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**JOSEPH A. SCHUMPETER REVISITED:  
PROJECTIONS FOR THE TWENTY-FIRST  
CENTURY**

**InIIS-Arbeitspapier Nr. 11/98**

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*"The stock exchange is a poor substitute for the Holy Grail."*

*Joseph A. Schumpeter (1942),  
Capitalism, Socialism and Democracy.*

## I. Introduction

A loyal subject of the Dual Monarchy by birth, a man of noble if not outright aristocratic inclinations by upbringing, a permanent exile, and a latter day professor at the ivory tower *par excellence* of disinterested scholarship, namely Harvard University, Joseph A. Schumpeter was well endowed to develop a critical attitude towards the times he lived through. Throughout the many stages of his career, he remained persistently an insider yet outsider to his immediate surroundings. His moral and ideological commitments to the bygone past provided him with a sense of objectivity when it came to passing a judgement on his own times. It is hence no surprise that Schumpeter could at the same time give a positive verdict on the economic performance of capitalism yet argue that it could possibly not survive because of its very own self-destructive thrust. This was indeed a singular attitude at a time when advocates of capitalism tended to argue for its invincibility, whereas its loud critiques maintained that it was bound to collapse because of its failure on economic grounds. Irrespectively of on which side of the debate the scholars were placed, their individual preferences over the success/failure of capitalism happily coincided with their theoretical inferences from their supposedly objective analysis of the facts. Among them all, Schumpeter formed the sole exception. While he would have preferred capitalism to survive, as he was impressed by its economic dynamism and creativity, he concluded that it could not (Schumpeter, 1942: 61). This must have had something to do with the fact that his greatest value commitment was not to capitalism as such, but to the aristocratic era that preceded it. In fact, it is precisely because he was more dedicated to all that capitalism had uprooted and displaced, he could pass a relatively objective assessment on the balance-sheet of capitalism, economic and otherwise.

While Schumpeter was well prepared by the formation of his identity to develop the kind of critical distanced outlook, had it not been for the final touch of the times he lived through, his *Capitalism, Socialism and Democracy* (1942) may not have materialized. The interwar era had brought about major changes that shifted the matrix of civilization on which the research and conduct of social scientists rested. Whereas the First World War terminated a century of unprecedented peace, the interwar period saw the reluctant conviction that the nineteenth-century civilization and all that it stood for in the positive sense were gone for good. Furthermore, the Great Depression shattered public confidence in the century-long progress of the market economy. The rise of socialism as an independent political force in the aftermath of the 1917 Revolution had already heralded that capitalism was not without an historical alternative. In the wake of the Great Depression, it seemed that the Depression-proof planned economy of the socialist venture also provided an economic alternative to the faltering market system to which capitalism had been deeply but perhaps unnecessarily committed. Last but not the least, by the Second World War, democracy had been erased from the entire surface of continental Europe

and replaced by dictatorships of various kinds. Amidst all these vast changes, capitalism and the allegedly "socialist" Soviet Union as the natural heirs of the Enlightenment heritage committed to progress, but at odds for the rest of the twentieth century, entered into a bizarre alliance to fight and defeat fascism (Hobsbawm, 1996: 7).

It is also no surprise that this was a very conducive environment to open up to debate the paradigmatic constants of the social sciences and to address questions of major scope such as the future of capitalism, democracy, and market. Schumpeter was not alone in addressing the viability of the system in question and socialism as its plausible alternative in his now-classic ***Capitalism, Socialism and Democracy*** (1942) at this critical historical conjuncture. Among his contemporaries, Karl Polanyi came up with his paradigm-shattering ***Great Transformation*** (1944) that assessed the rise and inevitable demise of the self-regulating market society, while Friedrich von Hayek responded with his highly polemical ***Road to Serfdom*** (1944). Two other less immediate yet immensely relevant intellectual endeavors deserve mentioning here. One was the ***General Theory of Employment, Interest, and Money*** (1936) of John Maynard Keynes, which sought to salvage capitalism by throwing over board the market dogma. The other was the historical thinking of Fernand Braudel that matured into the path-breaking ***La Méditerranée et le Monde Méditerranéen à l'Epoque de Philippe II*** (1949) in a war prison camp, where structures of the *longue durée* replaced the nineteenth-century Rankean narrative of events.

It was but natural that the self-consolidating confidence in the precarious peace founded on the Cold War and the economic prosperity of the post World War II put on shelf the kind of broader questions that had motivated Schumpeter and his contemporaries during the 1930's and 1940's. However, as of the upsurge of 1968 there emerged suddenly a discontent with the dominant paradigm of the primarily Anglo-American social sciences and a willingness to explore alternatives. This was bound to lead gradually to a renewed interest in the classics and the more essential questions of the social sciences. The symbolic fall of the Berlin Wall in 1989 brought to an end the twentieth century before the century was actually over. This event also heralded a new era where pervasive uncertainty about the future and a fundamental sense of difference from the past formed the only two "constants" in the domain of the social sciences. Therefore, it goes without saying, that the resemblance among our times and the interwar context justifies a return to the intellectual coordinates of the original Schumpeterian project.

It shall be argued below that the Schumpeterian research program as reflected in ***Capitalism, Socialism and Democracy*** actually entailed three components--besides socialism--that are still of crucial relevance for a correct specification of the likely systemic trends and tensions of the coming century, already manifest in embryonic form in today's world. These components consist of democracy, capitalism, and civilization. There is a logic to this particular choice of order and presentation. One could imagine them as forming a pyramid<sup>2</sup>, the tip of which consists of

<sup>2</sup> The idea of a pyramidal model deployed here resembles closely Fernand Braudel's interpretive scheme that worked with the metaphor of a three-storey house, where the ground-level consisted of material life, the middle level, of market economy, whereas the upper storey as commanding heights constituted the privileged domain of capitalism. This trimodal scheme of interpretation was already implicit,--albeit in an incomplete way--in Braudel's earlier study of the Mediterranean world (Braudel, 1949). Interestingly enough, a historian of remarkable breath who called for an open dialogue between history and the social sciences, Braudel nevertheless faltered when it came to discussing the works of his contemporaries in the social sciences. The structural affinities of their thinking escaped his notice. Furthermore, his

democracy, the middle layer, of capitalism, and the foundation, of civilization. This ordering has as much to do with the order of logical and structural determination we identify in Schumpeter between the constituent elements as with their geographical frequency and scope in the world. In other words, while democracies cover only a small--albeit meaningful--fraction of the globe, capitalism has long been almost "global", whereas civilizations in the plural "abhor vacuum" in space. In the following sections each of these components will be taken up in isolation as well as in its relationship to the other two, in order to develop a matrix of possibilities for the future.

While this work is inspired by Schumpeter's approach, it deviates from the original Schumpeterian formulation in significant ways. The first displacement in question is related to the trio of concepts that governs the research project. Whereas, Schumpeter worked with "capitalism", "socialism" and "democracy", this work, in conformity with the fashion of our times, chooses to replace this trio with "democracy", "capitalism" and "civilization"<sup>3</sup>. The second shift concerns the overarching question, which was for Schumpeter whether capitalism could survive, to which he answered with a blatant no. He then asked if its likely successor socialism could be compatible with democracy, to which he answered with a plausible yes. Whereas Schumpeter's question was posited and answered explicitly, the overarching question in this work remains implicit. It should nevertheless be spelled out here for the convenience of the reader: Can there ever be a singular, global, democratic, and capitalist civilization? This would indeed be the liberal utopia come true. As it will become apparent, I answer in the negative. Whereas capitalism is by definition global, it is incompatible with a single political entity, and furthermore, is unlikely to be matched with an all-inclusive civilization. Therefore capitalism will survive as long as there are a multitude of political units, plausibly many of which will not be democratic either, and it will help reinforce the pluralism of civilizations despite its will to do otherwise. Put differently, if and when we encounter a world of singular governance matched with a universal civilization, we shall have good reason to suspect that capitalism may well have been transcended for good, for better or for worse<sup>4</sup>.

Before proceeding any further with the elaboration of this intellectual exercise, however, a discussion of the "global" dimension of the research project, that remains conspicuously absent

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critiques of Schumpeter and Polanyi were not always exactly to the point (Braudel, 1982: 225-229, 382, 401). In any case, we have before us a case of simultaneous multiple independent discoveries instead of borrowing since Braudel discussed Polanyi and Schumpeter in his later *opus magnum* (1982) whereas his earlier work on the Mediterranean world (1949) had already set up the basic parameters of his analytical scheme.

<sup>3</sup> It may well be asked why one does not start off from the nowadays new and fashionable literature instead. Schumpeter's text has two major advantages over its contemporary alternatives. First, it is much more transdisciplinary in scope, and secondly, it is systemic in approach, with an emphasis on identifying a dynamics. In contradistinction, contemporary works take for granted disciplinary boundaries at a time when they come under severe pressure, and because of their partiality, lack a sense of systemic dynamics. As to the question of why socialism has been left out in favor of civilization, I should respond that a discussion of socialism remains beyond the scope of this paper, to be dealt with in another paper that will take up the issues of socialism in its variety of forms and the implications of the welfare state. While it is my contention that the nature of capitalism and democracy has not changed substantially since Schumpeter's time, the very phenomenon of the European welfare state deserves a full discussion elsewhere as one prefiguration of a major way to reconcile the inherent contradictions of capitalism and democracy.

<sup>4</sup> A discussion of whether or not Schumpeter would have agreed with this formulation or with the conclusions inferred in the rest of this work is besides the point. This work is not intended as an exercise in exegesis, but instead takes the text of Schumpeter as a convenient point of departure to address the more important issues of our times.

in Schumpeter, and that is of essential import to the spatial characterization of the pyramid we have referred to above, is in order.

## II. The Missing Fourth Dimension of Schumpeterian Analysis

Having listed above the favorable circumstances under which Schumpeter felt obliged to address major questions concerning capitalism and democracy, it is high time to identify the price Schumpeter paid for laboring within that particular context. The interwar period was distinguished by two dominant and obviously interrelated trends. First, there was a retreat from the cosmopolitanism of the nineteenth-century order, towards the assertion of the particularisms of various kinds. Empires yielded to nation-states, and nation-states were increasingly at war with one another irrespectively of their common foundations in the once-European civilization. Second, the Great Depression was a turning-point insofar as it heralded the break-up of the international economic order relying on two fundamental institutions that were as of then no more, namely, the Gold Standard, and the world-market.

The combined effect of the above two trends was the resurgence of the nation-state and the national economy as the natural unit of analysis in the social sciences. Schumpeter all too easily yielded to this temptation encouraged by the very context in which he worked. Despite his deep interest in long-term analysis and Kondratieff cycles which imply periodic restructuring he did not consider that the context which shaped his thinking could in fact be an exceptional parenthesis when considered from the perspective of the *longue durée*. The Hegelian legacy of German social science, to which Schumpeter was no stranger himself as well as *via* Marx, may have further contributed to his temptation to analyze the state and the economy in abstraction. Be that as it may, in Schumpeter's ***Capitalism, Socialism and Democracy*** we find the analysis of the political and the economic unit of the nation-state in the abstract and therefore in isolation from the rest of the world, where in reality, all nation-states are deeply inscribed in inextricable networks of interrelatedness, be they economic or political. In fact each state is created *vis-a-vis* other rivalling states as much as it is formed with respect to its prospective nation, another important lesson of the German social science as manifest in the writings of Otto Hintze (Gilbert, 1975), not to mention Schumpeter's much neglected other contemporary, namely Ludwig Dehio, who worked on the long-term dynamics of interstate relations (Dehio, 1962).

To be fair to Schumpeter, his work included one explicit discussion of an essentially transnational phenomenon, namely imperialism. However, having written an early article exclusively on the issue of imperialism (Schumpeter, 1951), Schumpeter chose not to discuss it further in his ***Capitalism, Socialism, and Democracy***. Nevertheless, several references to the issue scattered in the text demonstrate that Schumpeter held fast to his original position on the question of imperialism (Schumpeter, 1942: 49-54, 128). It should be noted that Schumpeter was writing against the then fashionable Hobson-Lenin thesis that saw imperialism as the natural consequence and the culmination of capitalist development. Schumpeter's position differed sharply from this viewpoint. For Schumpeter, imperialism was a remnant of the past carried on largely because of dynastic territorial states and their ever-present quest for aggrandizement since time immemorial. As such, far from being a consequence of capitalism, it

was in fact something that contaminated the capitalist epoch. In Schumpeter's view, capitalism was characterized by the predominance of gain-motivated individual self-interests that were centrifugal rather than centripetal in nature and that required peace and order for their pursuit. Therefore, both capitalism as a historical system, and the bourgeoisie as a class were essentially committed to peace. Had the vestiges of the past been fully eliminated in the course of time, and had the bourgeois capitalist project been fully realized in its pure and ideal form, this endpoint would resemble a Kantian universal utopia of peaceful coexistence. There is an irony involved here. The Schumpeterian analysis insists that capitalism cannot possibly exist in pure form<sup>5</sup>, and if this is so, then the inherently peaceful project could never be realized. That is, within the Schumpeterian scheme, capitalism is bound to collapse before it can attain universal peace. In other words, capitalism as a historical system is bound to be characterized throughout its history by interstate tensions of seemingly imperialist nature, though these may at best display a declining trend over time. It is my contention that while Schumpeter himself did not follow up such consequences of this line of reasoning that follows from the very logic of his analysis, we ought to take up from where he left in order to develop a true prognosis of the twenty-first century.

There emerges a further window of opportunity in the rectification of the Schumpeterian research program by "globalizing" its scope. Within the context of nation-state analysis, Schumpeter argued that capitalism as a primarily economic phenomenon owed its viability to the existence of an essentially non-economic "protecting strata" inherited from the past and without which it could not possibly survive (Schumpeter, 1942: 134-139). What this strata did is evident from Schumpeter's characterization of it as "protecting". It provided protection to the otherwise "peaceful" capitalist economy. As such, it was power-related as distinct from everything else that was fundamentally economic. Therefore there is the idea of an essentially political and economic alliance within which capitalism was offered the protection without which it could not survive in return for its provisioning of plenty out of which this power apparatus could be financed<sup>6</sup>. Once the Schumpeterian analysis is displaced from the nation-state context to the global scope, there emerges an interesting novel question in the horizon. The question concerns what would happen when the capitalist economic function and the protection-function diverge rather than converge within the boundaries of the very same state(s)<sup>7</sup>. To put it differently, could we conceive a world order where specialization takes the form of some countries being capital-abundant whereas others being power-abundant in relative terms, where the capital-abundant need the protection or the acquiescence of the power-abundant in order to accumulate further riches, while the power-abundant rely on extracting some kind of a tributary-rent from the capital-abundant ones?

<sup>5</sup> In a different work Schumpeter implied this assessment: "A purely capitalist society--consisting of nothing but entrepreneurs, capitalists, and proletarian workmen--would work in ways completely different from those we observe historically, if indeed it could exist at all." (Schumpeter, 1943: 172)

<sup>6</sup> A now-classic study of the central role of protection-rents in the consolidation of the symbiotic relationship between capitalist accumulation and state-making points out in this direction (Lane, 1979).

<sup>7</sup> This position has been taken up in a recent study that explores among other things the prospects of a U.S.-Japanese alliance: "Why not acknowledge the fundamental limits that the shift of the epicenter of systemic processes of capital accumulation to East Asia puts on the state- and war-making capabilities of the West, regardless of how unprecedented and unparalleled these capabilities may seem and actually are? Why not, in other words, let East Asian capital dictate the conditions under which it would assist the West to power? Is not this kind of deal what historical capitalism has been all about?" (Arrighi, 1994: 355).



It should by now be obvious that the Schumpeterian analysis has much to gain from a globalist perspective, just as Schumpeter's work has much to offer as potential working hypotheses to a globalist approach that purports to explicate in a systematic fashion the future trends that await us as we approach the twenty-first century.

### **III. Democracy as the Tip of the Schumpeterian Pyramid**

One should best think of democracy as constituting the tip of the pyramid rather than its middle or bottom layers in two different senses. In the first sense, democracy as Schumpeter conceived it did not have a major feedback on the rest of the pyramid. It could at the best be determined by the other levels, but it did not determine them in return. As such, if it disappeared from the scene, this would not shatter to the ground the remaining levels of the pyramid. This vision of democracy was in large part justified by the historical context in which Schumpeter was writing. During the interwar period and the Second World War, democracy had been wiped out of continental Europe and found refuge in North America and Britain where its prospects were far from certain. This process obviously helped rather than hindered Schumpeter's assessment.

In the second sense, democracies have come and gone but never covered more than a fraction of the globe. As such they have been far from universal. While some scholars have rather too hastily identified in the fall of the Berlin Wall the end of history and the concomitant universal recognition of liberal democracy as the most dignified form of political rule (Fukuyama, 1992), there is ground for skepticism in this respect. The proliferation of democracy is one thing, the survival of democracies, quite another. There have been waves of the spread of democracy in the past that have been followed by counter-waves (Huntington, 1991). There is no reason to assume that this new wave will not be followed by a counter-wave. One may wish it does not, but one should not confuse one's wishes with one's social science-based forecasts. At the least, that would not be in the spirit of Schumpeter.

New democracies have yet to stand the test of time in order to be credited as democracies. To survive, a democracy needs to deliver to the populace<sup>8</sup>, and the ability of democracies to operate in this respect is severely restricted by the dire constraints imposed by the global division of labor. Hence, it is no coincidence that, by and large, the relatively few persistent democracies coincide with the relatively few countries located in the rich North of the world economic division of labor<sup>9</sup>. The last wave of new democracies has been witnessed in the

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<sup>8</sup> Numerous empirical studies of the comparative performance of democracies leave much to be desired (Dick, 1974; Marsh, 1979; Weede, 1983; Arat, 1988; Pourgerami, 1988; Olson, 1993; Przeworski & Limongi, 1993; Rueschemeyer & Stephens, 1993; Burchart & Lewis-Beck, 1994; Helliwell, 1994). Such conclusions would be drastically affected by the historic shift from the nondemocratic to democratic camp of two countries such as South Korea and Taiwan identified with exceptional rapid-growth. In general, what such empirical studies demonstrate is that democracies have not performed significantly worse than dictatorships in economic development. However, the South on the whole has not performed well in terms of economic development, and given this background, democracies are much more vulnerable than dictatorships to the frustration of the populace in the short run.

<sup>9</sup> The one significant counter-example has been India. Economically located in the South of the axial division of labor, India has remained a democracy since its creation as an independent state. But in many ways, India is a democracy by default. The constitution of India under British rule has bestowed

former Eastern Bloc, that has been rapidly transformed from the East to the South of the global system. Unless the pulling-effect of European unification brings to its orbit these new democracies and thereby reintegrates them to the North, there is no reason to expect why the prospects of East European democracies be any brighter than those of Latin America (Przeworski, 1991: 190). In short, not only have democracies occupied a certain small percentage of the surface of the world,--population-wise even smaller, one must admit,--but also there is no good reason to expect them to cover the whole world in the near future<sup>10</sup>. This is the second reason why one can think of democracy as the peak of the pyramid.

It should be noted that the upper-third of the pyramid which we have referred to as either the "tip" or the "peak" does in no way constitute a "commanding height" in the Schumpeterian model. A "commanding height" would presuppose not only a hierarchy, but also a systemic dynamic. The "height" is supposed to "command" and thereby lead the entire system in one direction or the other. Within the Schumpeterian scheme, democracy has no dynamic content and does not feed back upon the lower layers in a systemic way. As we shall see, the dynamic of the system derives from elsewhere, and the prospects of democracy, far from shaping it, are very much shaped by it in the long term.

Schumpeter's study of democracy deviated sharply from the classical post-Enlightenment treatments of the subject that emphasized the *substantive* aspect of democracy and related it to the principles of common will, legitimate majority rule, and individual rights and liberties. These works had either inspired or were inspired by the universal message of the American and French Revolutions. Although he did not acknowledge it, Schumpeter's own approach was much more inspired by Max Weber's studies of democracy (Held, 1987: 165-70). Be that as it may, what was somewhat scandalously different about Schumpeter, was his exclusive focus on the *formal* aspect of democracy<sup>11</sup>. For Schumpeter there existed a practical problem of governing populated, complex, and modern societies. In order to come to terms with this problem, one of the devices designed, or methods employed was the democratic process. As such, it was essentially an "institutional arrangement" for meeting the challenge of governing modern

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upon it a certain institutional legacy that blocks the way for the realization of anti-democratic regimes. The garrison-army structure inherited from the British rule that deviates sharply from the highly centralized and hierarchical national armies in the Third World that supply the cast of military regimes is one major factor. The second factor is that India as a single political entity was the product of British colonialism. As such, it resembles more a mosaic of states locked in a balance-of-power system than a nation-state in the modern sense. This intrinsic pluralism sets further limits on how far the political regime could possibly deviate from democratic governance without jeopardizing the unity of India.

<sup>10</sup> Over the last two hundred years, the number of democracies has increased as an overall trend, albeit successive waves and counter-waves. It should be noted, however, that this far-from-certain and rather costly expansion took place within the domain of Europe and the so-called white settler societies, by definition, a conducive civilizational setting for democracies. Since this domain is now virtually exhausted, the next round of expansion will have to take place in far less receptive environments and under much less favorable circumstances. The specification of the problem in this manner suggests that modern democracy may have been to a great extent civilization-specific as far as its historical origins are concerned. This assessment does not preclude the possibility of transitions to democracy by way of emulation, nor does it rule out the likelihood of an eventual integration of democratic principles to the definitional matrix of a civilization. All it does is to point out to the inherent difficulties of such a process.

<sup>11</sup> Schumpeter has been much criticized by political theorists who insist on the primacy of the substantive aspect of democracy. On the whole, I maintain, Schumpeter's emphasis on the formal aspects does greater justice to the reality of democracies encountered in modern times. It should be added that Schumpeter's overemphasis of the voting process has led to the marginalization of the way in which issues are selected and deliberated upon. Obviously, democracy cannot be reduced to a voting procedure.

societies (Schumpeter, 1942: 269). Schumpeter maintained that democracy was a competition for the popular vote in order to produce a government. Within the Schumpeterian scheme, political parties led by their leaders competed in the ballot box to obtain the privilege of government for a fixed term. It was all the better that once a party was put in office, the people withdrew to their own sphere of interest and left the political process on its own. In developing this down-to-earth conception of the political process, Schumpeter used effectively the metaphor of economic competition. Successful leaders who articulated the wishes of the people were no different than successful entrepreneurs. Furthermore, far from being different, if the political parties resembled one another, this was similar to competitors imitating the successful innovation of the leading entrepreneur. In fact, the modern political process that took the shape of democracy was a distorted and somewhat inverted phenomenon where formal attributes had displaced their substantive counterparts and had become the "essence":

A party is not, as classical doctrine (or Edmund Burke) would have us believe, a group of men who intend to promote public welfare "upon some principle on which they are all agreed." This rationalization is so dangerous because it is so tempting. For all parties will of course, at any given time, provide themselves with a stock of principles or planks and these principles or planks may be as characteristic of the party that adopts them and as important for its success as the brands of goods a department store sells are characteristic of it and important for its success. But the department store cannot be defined in terms of its brands and a party cannot be defined in terms of its principles. A party is a group whose members propose to act in concert in the competitive struggle for political power. If that were not so it would be impossible for different parties to adopt exactly or almost exactly the same program. Yet this happens as everyone knows. Party and machine politicians are simply the response to the fact that the electoral mass is incapable of action other than a stampede, and they constitute an attempt to regulate political competition exactly similar to the corresponding practices of a trade association. The psycho-technics of party management and party advertising, slogans and marching tunes, are not accessories. They are the essence of politics. So is the political boss (Schumpeter, 1942: 283).

On the whole, Schumpeter's above characterization of the democratic *facade* of modern politics is quite accurate<sup>12</sup>. Whether democracy ought to be this or not, is an entirely different issue that concerns the debate over the substance of democracy as well as our value judgements. The critical point to maintain is that inherent in the Schumpeterian scheme is a useful distinction between the substance and the form. This distinction relates to an essential difference in practices of democracy that history has so far witnessed. By restricting his characterization to the democratic experience of modern societies, Schumpeter narrows down the scope of his form-centered analysis to *representative* democracy<sup>13</sup>. By doing so, Schumpeter tacitly acknowledges that the ancient practice of *direct* democracy remains immune from his characterization. In several instances, Schumpeter used "democratic" as an adjective to refer to

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<sup>12</sup> Schumpeter worked with the Anglo-American democracies as a model, as they were the only democracies of the interwar period, and generalized from their characteristics. Nevertheless, in the course of time, other European cases as well as the Japanese democracy (Allison, 1995: 156) came to approximate more closely to the model, thereby enhancing the power of Schumpeterian analysis.

<sup>13</sup> A clarification is needed here. The distinctions between representative and direct democracy on the one side, and formal and substantive democracy on the other, do not fully overlap. However, a direct democracy is more likely to be substantive than a representative one.

the substantive dimension of democracy (Schumpeter, 1951). As such, he was well aware of the distinction he held up against all odds<sup>14</sup>.

By bringing to light the *formal* character of *representative* democracy, Schumpeter's scheme of analysis opens new *vistas* for us. Within the Schumpeterian scheme, representative democracy appears as a second-best solution to the challenge of administering densely populated and complex modern societies. Precisely because they cannot govern themselves by way of *direct* democracy, they yield to the practice of representation. It goes without saying that this has been so in the nineteenth and twentieth centuries. Whether it will be so in the future is an open question that will be taken up in a later section. A further implication of Schumpeter's analysis deserves mention here. We have already noted above, the overall tendency for the numerical spread of democracy on the one hand, and the skepticism concerning the survival of such peripheral democracies on the other hand. The contemporary global environment is in fact conducive to the proliferation of democracies, that is formal democracies. As such, there is a tendency towards the convergence of the governance of nations to an asymptotic formal democracy. This is indeed a disciplining factor that forces many peripheral states to adopt at least some seeming *insignia* of democracy in return for other benefits that may come with the characterization as being democratic. However, none of these benefits are sufficient to guarantee the survival of a peripheral democracy that remains in the web of a disadvantaged position in the global division of labor. Therefore, some peripheral democracies may not even be able to preserve their democratic *facades*.

In the above section, we hinted at what could happen to democracy, if certain tendencies already inherent in the system were allowed to work out their effects fully. This entails an exploration of the logical possibilities of the Schumpeterian framework for analysis. However, the "globalizing" of the Schumpeterian framework as we have argued for in the Second Section brings to light problems of an entirely different nature that are bound to play a major role in the next century. Like Schumpeter we are often made to think so naturally in terms of the categories of the nation-state and conceive the world as a simple addition of nation-states. Consequently, we approach the problem of democracy as if it is exclusively a matter of within-the-state governance. Tempted for this way of thinking by the political philosophy of the past two centuries, we wish that finally all nation-states would become representative democracies, as the liberal utopia has anticipated for long (Fukuyama, 1992). Nothing could be more naive. Of course it would be better if all states were actually democracies. But this would only resolve part of the problem. The remaining part of the problem seems to be growing in size and deserves full attention.

To play the devil's advocate, let us dwell for a moment on the troubled relationship of the United States with Iraq as an extreme but useful case to highlight the problem I have hinted. The United

<sup>14</sup> Of course, there is a price paid for this otherwise useful distinction. The actual link between formal and substantive democracy is far too pervasive to be severed at a single stroke, for the convenience of analysis. A heavy emphasis on the formal attributes serves to collapse democracy with any political system. For example, according to Schumpeterian approach, South Africa under apartheid regime was as good a democracy as any other, as long as the white elites competed for office in the ballot box according to the rules they set themselves. In a similar vein, Iran under the mullahs is also qualified as democracy, as recent presidential elections involve a genuine competition among several candidates. Nevertheless, if we are less than prepared to view these cases as genuine democracies, this is because we rightly expect the fulfillment of additional substantive preconditions taken for granted as the expression of the expected standard of the times.

States is a democracy by all classical criteria, and Iraq is not. The commonplace argument is that were Iraq to become a democracy, United States and Iraq could be much more easily reconciled. So far so good. The principle of democracy requires that the Iraqis choose freely their own government. However, given the capacity to effect ordinary Iraqi citizens' lives, Iraqi government plays a much less important role than the U.S. government. It follows from democratic principles that, it is more important that the Iraqi people should have a say in the election of the U.S. president than in the election of their own government which after all plays a secondary role in determining their prospects of livelihood. This may seem absurd, but it is not as absurd as it may seem, and there is a grain of truth involved here<sup>15</sup>. This is analogous to your casting a vote to elect the mayor of the town you live in, but not being allowed to have a say in electing the prime minister of your country.

The problem in the above example is that the United States government as the leading power in the world is fulfilling additional functions of global governance for which it was not democratically elected by the potential constituency of the affected populace. In the next century, the waning of the nation-state in conjunction with the further crystallization of the nascent structures of global governance will inevitably bring to the agenda the problem of democratic global governance<sup>16</sup>. The paradox of Northern governments, which are democratically-oriented at home and undemocratically-bound abroad, that fill in for the missing structures of global governance, will inevitably become a contentious issue in the North-South relations. Moreover, what is at issue here is whether a potentially very important domain for the democratic process will actually come to host it<sup>17</sup>. We have already seen above how Schumpeter's thesis on the asymptotic pacifism of capitalism does not hold water when posited against the self-destructive thrust of capitalism. On the other hand, the fatal implications of a potentially warlike atmosphere for democracy are well documented in history. As such, continued tensions in the global system not only provide an excuse for the non-democratic management of nascent structures of world governance, but also hinder the prospects of fragile democracies to survive well into the next century. In any case, without the problem of the democratization of global governance duly resolved, whether more

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<sup>15</sup> The above argument was inspired by the open letter of a European peace activist to an American periodical during the mid-1980's. The peace activist insisted that the American electorate by re-electing President Reagan jeopardized the chances of peace in Europe and proved themselves incapable of choosing a president that would serve the interests of all parties concerned. It was therefore provocatively argued that the U.S. presidents in the future be elected by Europeans. If some people react much more strongly to this argument when it is re-cast in terms of North-South relations, this may well demonstrate their hidden yet surviving civilizational prejudices.

<sup>16</sup> When we speak of democratic global governance, we use democratic in the *substantive* sense of the term. Although in this nascent realm even the prerequisites of a *Schumpeterian formal* democracy have not yet obtained, nothing short of a substantively democratic procedure would suffice to meet the challenge that is being discussed in this section.

<sup>17</sup> The most consequential body of the United Nations, that is, the Security Council is in fact an exclusive club of the privileged. It remains "aristocratic" indeed, as it continues to be occupied by some countries the actual economic power of which have somewhat waded. As such, it resembles Schumpeter's protecting strata that continued to offer valuable services to a bourgeoisie that could not measure up to its political task. It is ironical that the issue of democratic global governance is only brought up when the routine consultation procedures of the Security Council are side-stepped in favor of the own agendas of the militarily strong and belligerent states. It should be noted that the constitution of the Security Council embodies a truly Schumpeterian conception of politics as its justification rests on the assumption that the all-inclusive plebeian General Council could not function effectively in the face of a crisis.

countries on the surface of the earth become representative democracies is bound to become an increasingly irrelevant trend<sup>18</sup>.

#### **IV. Capitalism, or the Seismic Properties of the Landscape**

For Schumpeter, the middle layer of the pyramid contained capitalism. He conceived capitalism as a dynamic "evolutionary process" (Schumpeter, 1942: 82). In fact, it was the vitality of capitalism as such that provided the entire system with a law of motion, so to speak. According to Schumpeter, because of the innovation-minded entrepreneur, capitalism continuously outperformed itself and went through cycles of "creative destruction". As far as this aspect is concerned, capitalism was as creative of the new as it was destructive of the old, that is the outdated technologies, no-longer competitive firms, etc. On the whole, the net result was an unprecedented quest for economic development, where the creativity-aspect outweighed the destructive side. This had two important further consequences. First, Schumpeter concluded that capitalism as a purely economic process entailed no inherent tendency to fail, be that some kind of underconsumptionism, or the tendency of the rate of profit to fall. As such, it was basically a success story as far as the economy in isolation was concerned. Secondly, precisely because capitalism as conceptualized in the Schumpeterian way was far too dynamic, it cultivated the seeds of its very destruction by way of its success. These seeds of destruction were more often cultivated within the border zones of the economic realm with the non-economic spheres, of which more will be said later.

It should be noted here that the Schumpeterian characterization of capitalism as a dynamic process turns it into a far too shaky ground to build solid and lasting structures and institutions upon. Furthermore, as capitalism provided the essential dynamics of the pyramidal model, the seismic properties of capitalism as a landscape set the tone for the pulses of the historical system. It should come as no surprise after this characterization, that periodic if not an ultimately catastrophic earthquake awaited the historical system in question.

Given the inherent dynamism of capitalism, it should be obvious that in purely economic terms it was the object of a profound change that transformed its character over time. There was a tendency at work within capitalism toward the concentration of capital in the hands of large corporations with monopolistic aspirations where further research and development could find a hospitable environment. This had two important consequences. First, private property increasingly lost its tangible quality, as far as the owner was concerned (Schumpeter, 1942: 141-42). As such, the concept of private property, a must to proper functioning of capitalism, gradually acquired an abstract sense, and lost much of its meaning as the owner became the

<sup>18</sup> It may be asked why the spread of democracies in the national level should not lead to the democratization of the global governance structure. Had this latter been a simple arithmetic summation of the national governance structures, or had it been thoroughly negotiated among the nation-states, this could have been so. However, structures of global governance are developing side by side, and independently of national governments, obviously more independently of some, than of others. The fact that they develop in response to unforeseen immediate international problems gives them an excuse to circumvent the democratic process. However, by the time such structures are thoroughly consolidated, it may be too late for national democracies to address the problem.

portfolio holder of dispersed shares in various enterprises he did not know much of except for their expected profitability rates. Second, within such large corporations, innovation itself became highly de-personalized and concentrated in highly specialized research & development departments. As such, innovation became routinized (Schumpeter, 1942: 131-32), thereby depriving capitalism of its periodic forceful upsurges that were due to the introducing of innovations in clusters. This would amount to the gradual taming of the Kondratieff cycle matched in the Schumpeterian scheme with the idea of creative destruction.

Before the above trend would work out its effects fully, capitalism nevertheless continued to revolutionize the economy. For Schumpeter, the capitalist enterprise and technological change were two sides of the same coin:

Was not the observed performance due to that stream of inventions that revolutionized the technique of production rather than to the businessman's hunt for profits? The answer is in the negative. The carrying out into effect of those technological novelties was of the essence of that hunt. . . It is therefore quite wrong--and also un-Marxian--to say, as so many economists do, that capitalist enterprise was one, and technological progress a second, distinct factor in the observed development of output, they were essentially one and the same thing or, as we may also put it, the former was the propelling force for the latter (Schumpeter, 1942: 110). Precisely because of the ability of capitalism to revolutionize technology, a major change concerning the prospects of capitalism has become a reality. The electronics and communications revolution already well under way, as manifest in the increasing centrality of computer technology in virtually all spheres of life hold the key to the specification of plausible scenarios for the future<sup>19</sup>.

One scenario induced by the new technological possibility boundary concerns immediately the realm of the economic. The specter of economic planning has always haunted capitalism as a market-oriented private property-based system. This was more so during the time Schumpeter wrote than ever before. The Soviet record of Depression-proof rapid economic growth combined with the performance of war economies induced many to consider economic planning a viable alternative to the market economy. In reaction to this trend, Hayek wrote his *Road to Serfdom* (1944) at about the same time as Schumpeter developed his ideas. Providing the intellectual background to both Hayek and Schumpeter, the famous socialist calculation debate had already compared and contrasted the prospects of market economy with that of central planning only to conclude that, first, there existed no competent mechanism for amassing the kind of information needed to plan a vast economy, and secondly, the dynamism of the market as an entrepreneurial "discovery process" could not be simulated even if the so-called Walrasian equilibrium price-quantity set could be calculated by "shadow-pricing" (Lavoie, 1985). In the light of the capitalist revolutionizing of computer technology, we now have at our disposal the technical means that were once lacking. Hence central planning exists as a technical possibility for the future organization of economic life in a way radically different from capitalism.

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<sup>19</sup> The very development and spread of such technologies changes the parameters of the game significantly. There is no reason to assume that these technical possibilities will automatically be appropriately instituted to the best effect. In fact, they may even be underused with efficiency gaps in proportion to their capacity. Even so, there will emerge great leaps forward in comparison with what had prevailed before. This suffices to justify their importance.

It goes without saying that a technical possibility is one thing and its concrete realization quite another. One may superficially conclude that, on the whole, the long-term trend in the twentieth-century has so far been in favor of market as far as its rivalry with planning is concerned. This is only true when planning is wrongly and automatically equated in our minds with macro-level central planning. Whereas technologically-undersupplied and therefore wasteful central planning has yielded to market process, market process itself has succumbed to another kind of planning that silently crept into the economic domain and consolidated itself in the exemplary large corporations, the efficiency of which leaves nothing to be desired<sup>20</sup>. It is no coincidence that transnationalized companies of this kind now deploy heavily the new kinds of computer and communication technologies in planning their production and sales on a world scale, thereby circumventing the market mechanism.

In the above instance, we have seen the purely economic prospects of the technological development engendered by capitalism. The same technological breakthrough opens up a new terrain as far as the effect of capitalism on democracy is concerned. In the previous section on democracy, we have hinted that the uncontested reign of representative democracy as the democracy may be coming to a close. There is in fact good reason to argue that as far as the prospects of democracy is concerned, we are fast approaching a critical threshold. In the twenty-first century, thanks to rapidly proliferating technologies of communication and computer networks, with minimal computer literacy, it will become possible for the population to take part not periodically but continuously in a democratic process. In other words, for the first time in the context of modernity, direct democracy will become a technical possibility.

It should once again be emphasized that a mere technical possibility should not be confused with a social reality. Whether or not this possibility will be realized depends on other social and historical factors<sup>21</sup>. However, I insist that the mere recognition of this technical possibility will put a new burden on the bearers of representative democracy. For the first time, advocates and beneficiaries of representative democracy will have to argue on other-than-technological grounds in favor of the continuation of their way of government. As such, a *ruling-class* with a vested interest in the political process that fights hard to maintain its privileged position over the political apparatus will become increasingly visible to the public eye. I use the term "ruling-class" in a loose sense to refer to the stratum of people who concentrate on the function of political rule. The effect of this process is bound to be further alienation from and resentment of the political process in the course of the next century.

<sup>20</sup> At about the same time when the socialist calculation debate was taking place, somewhat unnoticed, Ronald Coase developed his study of the firm based on his observations on the new American enterprises that provided the source of inspiration for all transaction-costs economics to follow almost half a century later (1937). An already classic study of how the American business transformed the notion of capitalist organization of the firm is the work of Alfred Chandler (1977). Inspired by Thorstein Veblen's turn-of-the-century pioneering study of the business enterprise (1904), John Kenneth Galbraith elaborated the planning attributes of the modern giant corporation (1985).

<sup>21</sup> In conjunction with this, we should remind ourselves of the efforts to re-substantiate the highly formalized and alienating democracies of the North by way of measures designed to bring people back in by way of plebiscites and participatory procedures. As such, there exist genuine pressures from within geared towards securing legitimacy of the political process, as well as from the realm of the excluded where social movements and identity politics proliferate. The new technologies have made at least some such voices heard. Recreation of such social communication networks demonstrate the potential for the deployment of such technologies to the effect of a novel grassroots democracy. However, it should also be noted that there exists a huge gap between open discussion in computer networks and the actual processes of policy determination.



On the other side, were the public to prove capable of putting into practice direct democracy with virtually no or little resistance on part of the establishment, there would emerge a major problem that could potentially jeopardize the prospects of the entire Schumpeterian pyramid. It should be reminded that for Schumpeter, the virtue of representative democracy was that the public, after having chosen a specific government withdrew, to its own sphere of immediate interest. This left the political class with a room for maneuver they desperately needed in order to enact unpopular policies. If, with the new technologies of democracy at their disposal, instead of withdrawing, people choose to remain within the political sphere, they can bring to a deadlock the entire process by persistently voting for contradictory objectives. In numerous instances public opinion polls indicate how people would rather have better social services and yet pay less taxes. Such irreconcilable objectives inextricably tied up with the new technologies of direct democracy can actually herald the inevitable end of the Schumpeterian pyramid. In any case, this possibility would imply that the original Schumpeterian formulation of the relationship between the tip and the lower two layers of the pyramid as essentially operating bottom-up may be coming to a historic close. The relationship can actually operate for once from up to bottom, and this may suffice to terminate for good the life-span of the historical system in question. On the whole, I expect the first variant based upon ruling-class resistance to be more likely than the second in the medium-term, that is for the next fifty years or so. Be that as it may, it goes without saying that the above troubling scenarios and the zone of turbulence await democracy more so in the North than in the South. In the South, needless to repeat, the asymmetries of the global capitalist division of labor will continue to exert a negative influence on the ability of democracies to deliver their promises concerning the well-being of the populace.

In short, the two scenarios spelled out above that take off from the technological advances brought about by capitalism lead by different routes to the same end. In the one case, by making direct democracy possible, they can actually bring the system to a deadlock and thereby kill capitalism by leading to anarchy and chaos. In the other case, by making grand-scale planning possible, they can provide a plausible structure of global governance with the means to centrally administer all spheres of life, thereby leading to an authoritarian if not totalitarian state. Nor should we necessarily think that the two scenarios are mutually exclusive. Nature and history abound with examples of order emerging out of a state of chaos (Prigogine and Stengers, 1979). As such, the first case may well lead to the second after a lengthy interval.

## **V. Civilization as More Than Mere "Institutional Deadwood"**

Karl Polanyi, the contemporary of Schumpeter referred to the self-regulating market as "the fount and matrix" of the nineteenth-century civilization (Polanyi, 1944: 3). By doing so, Karl Polanyi moved a step further from Karl Marx who had singled out the economic mode of production as the "infrastructure" on which everything else in a social system rested. Nevertheless, Polanyi's focus on the market still kept the focus on the primacy of the economic realm. Schumpeter parted ways completely. For Schumpeter, I shall argue, civilization, if anything, constituted the

implicit "fount and matrix" in Polanyi-esque terminology. This was a radical break with the tradition.

Before going any further, one has to clarify the meaning of civilization as we use it in this study. First of all, the concept of civilization is a product of the late eighteenth century, and therefore belongs to the **concepticon** of the nineteenth century mainstream social thought. In one use, it was the opposite of barbarity and stood for the progressive project inherent in the Enlightenment. Within this context, it was by necessity, singular and universal. In another use that emerged at about the same time, it was by necessity particularist and in the plural, as it referred to the study of "cultural difference" in the context of comparative civilizations and anthropology. Even so, in conformity with the first usage, it was commonplace to measure the performance of other civilizations by means of the European civilization. In any case, "civilizations" were invented long after the fact. In other words, by the time we had at hand a concept of the Chinese civilization, the presumable heyday of the Chinese civilization as a historical system was long gone. Consequently, civilizations are a contemporary claim about the past, largely reframed by the relative importance of the remnants of the bygone eras which work with a lagged effect on the present day of historical systems (Wallerstein, 1991).

Schumpeter was somewhat ambiguous about the meaning he gave to civilization, and when he talked about the "civilization of capitalism" (Schumpeter, 1942: 121) he was going through one of his very few moments of weakness. It seems that all too easily he collapsed a particular civilization and capitalism together in order to credit capitalism with the positive achievements of civilization in which we all sometimes too uncritically take pride. We have already seen how Schumpeter's thought was deeply affected by Max Weber. As far as the conception of civilization and how it relates to the **genesis** of capitalism are concerned, Schumpeter tacitly took off from where Weber had left. Because of this implicit thematic continuity, Schumpeter's research program was much more narrowly defined than Weber's.

In ***Capitalism, Socialism and Democracy***, Schumpeter started off from the study of the center of the purely economic processes and traced a number of concentric cycles outward in order to arrive at the boundaries where the economic and the non-economic spheres interact. As such, he did not depart from civilization at large to arrive at capitalism, but instead, took off from the logic of capitalism to arrive at the conclusion that capitalism could not exist without the non-economic framework that gave it shape. The non-economic framework consisted of institutions that were either conveniently inherited from the past as in the case of macro-structures associated with the "protecting strata" or minor institutional arrangements that came into being precisely because capitalism could not do without them in the short run. When approached from the viewpoint of economic logic, fragmentary as they seem, all of these institutional supports appear as the outward fortresses of a civilizational domain. Therefore, we refer here to the **ensemble** of these factors as civilization. Furthermore, these institutions are concrete as far as they have an inevitable presence in the daily life of the normal citizen. Whereas Schumpeter was not very clear about the meaning he gave to civilization, I shall use it here in the above sense with the **proviso** that a civilization is necessarily manifested in the material and mentality structures of everyday life.

In the tripartite schema I have put forward, civilization occupies the ground-level of the pyramid. This is open to multiple interpretations. First of all, the entire globe is conceived as the realm of

civilization(s). Secondly, civilization(s) are the most durable structures that we encounter in this historical system. As such, characterized by *inertia*, they change very slowly and only over the *longue durée*. Because of their relative stability they deserve to be placed at the bottom where they provide a solid foundation. Last but not the least, there runs a chain of causality which Schumpeter inherited from Weber, according to which a certain kind of civilization, namely the European one, constituted the precondition for the emergence of capitalism. This determination would further justify the placement of civilization underneath capitalism as an "infrastructure"<sup>22</sup>.

Before going any further we should remind ourselves that as far as providing the dynamics of the entire scheme is concerned, capitalism remains the sole beast of burden. In fact, had it not been for the catalyzing effect of capitalism,--occupying the middle layer,--the realm of civilizations would have been characterized by *stasis*. In other words, the ground-level is the least changing of all, unless it is acted upon by a dynamic agency such as capitalism. Therefore capitalism determines the dynamics of the system whereas civilization determines whether or not there will be a capitalism in the first place. The decisive step Schumpeter took was to emphasize what would happen once capitalism acted upon the otherwise static realm of civilization. According to Schumpeter's thesis, capitalism, in spite of its economic success, would inevitably collapse, because it undermined the civilizational infrastructure on which it stood, a phenomenon I have dubbed "capitalism's uncreative destruction" elsewhere (Özveren, 1999). Once this inevitable process of erosion had reached the critical point, the pillars could no longer hold, and capitalism would collapse:

In breaking down the pre-capitalist framework of society, capitalism thus broke not only barriers that impeded its progress but also flying buttresses that prevented its collapse. That process, impressive in its relentless necessity, was not merely a matter of removing institutional deadwood, but of removing partners of the capitalist stratum, symbiosis with whom was an essential element of the capitalist schema (Schumpeter, 1942: 139). According to Schumpeter's viewpoint, civilization has not only played a crucial role in the origins of capitalism as in the Weberian sense, but is also destined to give the fatal blow in the final act.

We have already seen above how Schumpeter's analysis was unconsciously shaped by a nation-state approach. The concern with civilization was one major area where he could not possibly help transgressing the boundaries of nation-state analysis. It is self-evident that the civilization he had in mind was the European civilization. As such, in ***Capitalism, Socialism and Democracy***, Schumpeter assumed the European civilization to provide the common denominator on which particular case histories rested. "Globalizing" Schumpeterian analysis has also important implications in this respect. In retrospect, it becomes obvious that capitalism which first developed within the setting of European civilization soon became universalized only to cover most if not all of our planet.

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<sup>22</sup> The role of the European civilization in giving birth to capitalism is much popularized by the Weberian problematic, but is in no way reducible to it as Marx also depicted specific transformations that obtained in the European feudal past that distinguished it from the so-called Asiatic despotisms. What is of utmost importance for the characterization of civilization as an infrastructure here is not so much the diachronic phenomenon of historical precedence but rather that of synchronic contingency. In other words, in order to function, a capitalist engine at any moment in time requires the fuel of a civilization, irrespectively of how capitalism came about in the first instance. This is what is to be understood of an economy as an instituted process, to put it differently, as a process that cannot exist in a vacuum.

The above process had one theoretical and two historical implications. First we enlist the historical implications: In the first place, capitalism pulled and stretched European civilization to the best it could in order to generalize it as the universal civilization *par excellence*. Secondly, because civilizations are relatively solid and slow to change in nature, the European civilization was not entirely flexible to accommodate capitalism in its globalizing mission. Hence at some point capitalism and the European civilization had to loosen their original ties and to a certain extent part ways. It is in this phase that capitalism became a truly global system while the European civilization entered a path of retreat from pretensions to being the singular civilization to becoming one among the several. Now we return to the theoretical implication. In Schumpeter's study, the civilizational infrastructure is eroded by virtue of the inevitable consequences of the highly dynamic capitalist process. Once the analysis is "globalized", this trend is further compounded by the growing disparity in scale between capitalism and civilization, as a result of which the infrastructure could also have collapsed under the increasing weight of what it was purported to hold, had it not been for the detachment of capitalism from the European civilization.

While capitalism global in scope could not do with the specific European civilization that gave birth to it, it could not do without any civilization either, as argued by Schumpeter. Because the civilizational realm not only helps put capitalism in a shape but also dictates the values by way of which capitalist choices become meaningful. In the Schumpeterian scheme, most important choices are those of the entrepreneur which provide the historical system with an exceptional dynamics of its own. If the entrepreneur behaves systematically in a way different than that of *homo economicus*, this has to do with the impact of the distilled values of a civilization to which he has been exposed within the context of an extra-economic institution such as the family:

"When we look more closely at their [economists'] idea of the self-interest of entrepreneurs and capitalists we cannot fail to discover that the results it was supposed to produce are really not at all what one would expect from the rational self-interest of the detached individual or the childless couple who no longer look at the world through the windows of a family home. Consciously or unconsciously they analyzed the behavior of the man whose views and motives are shaped by such a home and who means to work and to save primarily for wife *and children*. As soon as these fade out from the moral vision of the businessman, we have a different kind of *homo oeconomicus* before us who cares for different things and acts in different ways. For him and from the standpoint of his individualistic utilitarianism, the behavior of that old type would in fact be completely irrational. He loses the only sort of romance and heroism that is left in the unromantic and unheroic civilization of capitalism--the heroism of *navigare necesse est, vivere non necesse est* ["Seafaring is necessary, living is not necessary." Inscription on an old house in Bremen.]. And he loses the capitalist ethics that enjoins working for the future irrespective of whether or not one is going to harvest the crop oneself." (Schumpeter, 1942: 160)

What holds true for the entrepreneur as the *persona causa* of economic development, holds also for any individual as far as choice-making is concerned. Hence capitalism without a civilization in the Schumpeterian scheme would be like a traffic without traffic signs. Consequently capitalism has to create a global civilization that would provide it with the minimal means to function. This nascent civilization is minimal in two senses. First, in order for it to be global, it is natural that it should aspire to be minimal in order not to contradict other local civilizations. Secondly, precisely because capitalism is a highly dynamic and therefore shaky

ground to build lasting structures upon, it has in fact given rise to a highly volatile civilization irrespectively of choice or suitability.

The increasing circulation of commodified instruments of cultural hegemony has attracted the attention of many students of the globalization of culture. Implicit in their characterization has been a shift from the terminology of civilization to culture. Behind this shift, there exists an important reality in the sense that the civilization capitalism has given rise to is a "lesser civilization" which in no way measures up to the standards set up by its predecessors. It is highly doubtful that this "lesser civilization" will prove more effective than a temporary solution to the difficulties facing capitalism in the Schumpeterian scenario:

Perhaps the most striking characteristic of the end of the twentieth century is the tension between this accelerating process of globalization and the inability of both public institutions and the collective behaviour of human beings to come to terms with it. Curiously enough, private human behaviour has had less trouble in adjusting to the world of satellite television, E-mail, holidays in the Seychelles and trans-oceanic commuting (Hobsbawm, 1996: 15). While Hobsbawm emphasizes the disparity between intermediary institutions and individuals in terms of flexible accommodation to new technologies, the real question is whether, when left to their own, individuals will be capable of handling the new technologies in a civilizational vacuum. The preliminary optimistic impression conveyed above may not last long once the civilizational supports are further eliminated. For the time being, the individuals in question are enjoying the best of two possible worlds. They still have enough "savings" of the civilizational input essential for choice-making as they sail into a world of novel technological opportunities. However, this is a losing race against time.

It is obvious that historical capitalism has tended to homogenize the economic realm in terms of operational logic yet polarize it in terms of the distribution of benefits and burdens. The historical legacy of the same era remains somewhat different when it comes to the domain of civilizations. In spite of the tendency towards the realization of a global "lesser civilization", there have always existed a multiplicity of civilizations. One might even argue that the increasing differentiation of the European civilization and the "lesser civilization" represent a tendency towards multiplication from within. Furthermore, the very tendency towards globalization of a singular civilization has cultivated a growing consciousness of other civilizations presumably facing the danger of extinction. The notions of a threatened Chinese or Indian or Islamic civilization are products of modernity. Far from being the natural endpoint of very long term historical processes, they have in fact been shaped in response to a potentially globalizing civilization. As such, irrespectively of the forms they may take, they are as modern as their adversary. Hence, on the whole there exists a tendency towards the consolidation of a pluralism of civilizations.

On the above basis, some scholars have too hastily inferred that a "clash of civilizations" may prove inevitable (Huntington, 1993, 1996). This is far from being the whole truth. When approached from a very-long term perspective, there has in fact been a reduction in such clashes that deservedly could be labelled as civilizational. A prospective temporary reversal of this trend can only be traceable to two conclusions. First, the correlation between the polarities of global capitalism and the persistence of plurality of civilizations can imply that a seemingly civilizational clash may in fact be the effect of other deeper socio-economically irreconcilable

interests and concomitant frustrations<sup>23</sup>. Second, Schumpeter developed his hypothesis concerning the relationship of capitalism to civilization in the light of the specific European historical experience. The fact that European civilization has proven itself vulnerable to the very capitalism it gave birth to, does not mean that all civilizations will share the same vulnerability. After all, the historical record indicates that the other civilizations resisted the temptation to give rise to the development of an indigenous capitalism. Furthermore, given that other civilizations as we conceptualize them now involve a further reconsolidation of historical legacies in response to globalizing capitalism and its "lesser civilization", they may develop a further immunity. As such, they may become "civilization-abundant" where civilization means protection means power as a second-best solution to relative economic depravity. We will yet see whether and to what extent these hypotheses may be supported by further evidence. Nevertheless, given the nature of the realm of civilizations, one conclusion is imminent. Exacerbated by the uneven development of capitalism, middle-run disparities in the relative strength of capitalism and civilization in different cases can well lead us to a situation where the potential for seemingly civilizational clashes in response to unfavorable positioning in the global political economy may considerably rise.

However the above assessment should not be confused with a pure clash of civilizations as anticipated by the nowadays fashionable scholarship. There exists one important reason why a pure clash of civilizations between the globalizing "lesser civilization" and its local counterparts is becoming less and less likely. It should be underscored here that the globalizing "lesser civilization", by virtue of its thin and flexible substance develops at an *oblique* angle to local civilizations, thereby avoiding outright head-on confrontation and preserving a room for maneuver.

## VI. Conclusion

A modified version of the Schumpeterian research program that takes into consideration the global character of the historical system in question is as pertinent to the understanding of the trends and prospects of the coming century as it was for the twentieth century for which it was originally designed. It offers a very useful alternative to the so-called common sense view of the future which is very much shaped by the liberal vision and diffused by way of the highly institutionalized structures of knowledge. The liberal viewpoint is indeed very widespread. Furthermore, it is never stated in its entirety. However, it is widely assumed. The fact that it is taken for granted by so many as the expression of common sense attests to its strength. It has pervaded into its seeming adversaries such as institutionalized Marxism. Paradoxically, the liberal viewpoint remains to this day implicit, that is never put forward in a nutshell version.

In order to understand better the originality of the Schumpeterian framework advanced in this study, we need first attempt here what has not yet been attempted by the advocates of the liberal thesis themselves. The liberal thesis concerning the overall trajectory of history runs as follows. A progress-bound process of inevitable modernization goes hand in hand with economic

<sup>23</sup> This conclusion has also been suggested independently by a recent critique of the Huntington thesis (Senghaas, 1998: 130).

development based upon private initiative which in turn reinforces individual rights and liberties on the basis of which political democracy develops. The ultimate effect in the domain of international relations of this process is a universal peace. As such, we start off from traditional, power- and privilege oriented states and societies locked in a perpetual state of stagnation and mutual warfare only to arrive at a universally peaceful, progress-oriented society based on individual pursuit of self-interest in a rational fashion. From diversity we progress to a state of global convergence. Within this scheme of progress, democracy and the market economy take on an appearance as natural tendencies waiting to be realized from the onset of history, yet obstructed by the interference of human and social institutions. Interestingly enough, capitalism as a historical system disappears from this picture, yielding its place to the atemporal notion of a market society that is bound to stay as long as human reason prevails on earth. As for civilization, it is by definition unique and bound to be universal, by way of the "civilizing process"<sup>24</sup>. In other words, the future is nothing but the Enlightenment project finally come true.

Badly enough, the confidence in this liberal model is increasingly being shaken. The first retreat has come about in the domain of civilization with the increasingly commonplace scenarios of the clash of civilizations. In order to avoid a clash of civilizations, it is argued, we should get used to tolerating a pluralism of civilizations. This position brings down the whole house of cards as it limits the once taken for granted holistic progress that modernization was to bring about. With the new position, the expected effect of modernization on civilization is given up for good. It is no coincidence that this new position (Huntington, 1996) is inaugurated in the United States a hegemon on the verge of a decline, no longer willing to assume responsibility for so costly a universal project to maintain against all odds. Paradoxically enough, critics of this position fall back upon the once-fashionable modernization thesis, albeit in its more sophisticated version, in order to defend ideas such as human rights and dignity and universal responsibility (Senghaas, 1998). They rightly see that a relativism of civilizations would put once universal ideas such as liberty and equality down the drain. What they fail to see is that the distorted optics of the modernization process itself is responsible for the psychology of retreat and the *cul-de-sac* in which so many of us find themselves.

In contradistinction, the Schumpeterian model which has been developed above brings back in capitalism as a historical system. Furthermore it severs the assumption of parity between different historical systems and their corresponding civilizations. More specifically, capitalism by being much more dynamic than feudalism, can in fact cultivate only a shaky and partial civilization of its own. This formulation opens up a new space where fundamental contradictions that bound a historical system to its final collapse can accumulate<sup>25</sup>.

When put into a tripartite pyramidal format, the Schumpeterian conceptual model indicates that the most dynamic realm remains that of the capitalist economy, which impacts upon, constrains, and transforms the other two neighboring domains. Before going into the relationship of capitalism to other two domains, it should be noted that capitalism cultivates its very *nemesis*, that is planning, by way of the technological and organizational advances it inevitably brings

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<sup>24</sup> The argument in favor of the uniqueness of civilization is further supported by the assumption shared with institutionalized Marxism that successive epochs of history displayed distinct civilizations of their own. Just as feudalism was identified with a certain civilization, so would capitalism be.

<sup>25</sup> The possibilities opened up by this shift resemble the impact of the rejection of oftentimes implicit Say's Law in economics as a result of which a whole underconsumptionist literature that led to John Maynard Keynes became meaningful.

about. If coupled with global governance, planning could bring to a halt market-oriented capitalism once the economy and polity of the whole world falls under a singular jurisdiction. As far as the impact of the capitalist process on democracy is concerned, capitalism deforms democracy yet simultaneously providing it with the technological equipment that can rejuvenate a quest for direct democracy in the core. If materialized, direct democracy can feed back upon capitalism by bringing it into a deadlock. However, given the shift of focus of the political realm from national to global structures of governance, democracy can become an increasingly localized issue, and may in fact wither away. As far as the relationship of capitalism to civilizational realm is concerned, capitalism undermines civilizations--albeit at different rates--in general, and the so-called European civilization that gave rise to it in particular, only to put in its place a "lesser civilization" that meets, for the time being, its minimal demands for self-reproduction. The ongoing erosion of the civilizational crust may well eventually purify yet kill capitalism as envisaged in the Schumpeterian scenario. In which order, whether and to what extent these trends will operate remains to be seen. However, one embryo they do not seem to bear in their womb is the final realization of the liberal utopia.



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